

BUSS & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

ROMEO DISTRICT LIBRARY

Romeo, Michigan

FINANCIAL REPORT

WITH SUPPLEMENTAL INFORMATION

PREPARED IN ACCORDANCE WITH GASB 34

June 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type DISTRICT LIBRARY <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name ROMEO DISTRICT LIBRARY		County MACOMB
Audit Date 6/30/05	Opinion Date 9/16/05	Date Accountant Report Submitted to State: 11/10/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

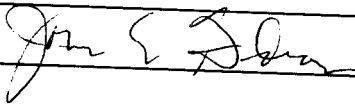
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BUSS & COMPANY, P.C.			
Street Address 42550 GARFIELD, SUITE 105		City CLINTON TWP.	State MI
Accountant Signature 		ZIP 48038	Date 11/10/05
JOHN E. GIDEON			

ROMEO DISTRICT LIBRARY
Romeo, Michigan
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June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

September 16, 2005

To the Board of Trustees
Romeo District Library
Romeo, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Romeo District Library as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Romeo District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Romeo District Library as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule on pages 3 through 4 and pages 20 through 21, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

Board of Trustees
Romeo District Library
September 16, 2005
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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Romeo District Library's basic financial statements. The other supplemental information is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

BUSS & COMPANY, P.C.

A handwritten signature in cursive script that reads "Buss & Company, P.C." in dark ink.

Certified Public Accountants

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ROMEO DISTRICT LIBRARY
Romeo, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Using this Annual Report

This annual report consists of four parts - *Management's discussion and analysis* (this section), the *basic financial statements*, *required supplemental information*, and *other supplemental information*. The basic financial statements include information that presents two different views of the Library:

- The *government-wide financial statements* provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The governmental fund financial statements include information on the Library under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplemental information and other supplemental information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below provides key financial information in a condensed format for the current and prior years.

	<u>2005</u>	<u>2004</u>
Current assets	\$1,473,946	\$1,375,837
Capital assets	5,173,961	5,210,697
Total Assets	<u>\$6,647,907</u>	<u>\$6,586,534</u>
Long-term debt and compensated absences	\$1,351,025	\$1,753,100
Other liabilities	81,998	62,640
Total Liabilities	<u>\$1,433,023</u>	<u>\$1,815,740</u>
Net Assets:		
Invested in capital assets, net of related debt and accrued interest	\$3,860,635	\$3,498,322
Restricted for debt service	41,613	48,820
Unrestricted	1,312,636	1,223,652
Total Net Assets	<u>\$5,214,884</u>	<u>\$4,770,794</u>
Revenue:		
Property taxes	\$2,177,943	\$2,133,248
Other	176,681	178,729
Total Revenue	<u>\$2,354,624</u>	<u>\$2,311,977</u>
Expenses - Library services	1,910,534	1,968,933
Change in Net Assets	<u>\$ 444,090</u>	<u>\$ 343,044</u>

(Continued)

ROMEO DISTRICT LIBRARY
Romeo, Michigan
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2005

The Library as a Whole

- The Library's net assets increased by \$444,090 this year. This reflects that taxpayers, current users, and other supporters of the Library have paid the full cost of operating the Library, even after depreciation and recognition of long-term obligations.
- The Library's primary source of revenue is from property taxes, which represents 92% of total revenue.
- Total expenses were 81% of total revenue for the year ended June 30, 2005. Salaries amount to approximately 45% of total expenditures. Benefits amount to 14% of total expenditures.

The Library's Fund

The Library uses funds to help it control and manage money for particular purposes. Looking at funds helps you consider whether the Library is being accountable for the resources provided and insight into the Library's financial health. The Library's major funds consist of the General Fund and the Debt Retirement Fund.

The fund balance of the General Fund increased during the current year by \$81,390. The increase is due primarily to the reduction in expenditures which decreased by \$184,510. The most significant decrease in expenditures was in buildings and furnishings which coincides with the completion of certain projects.

The fund balance in the Debt Retirement Fund decreased by \$7,207. Millage rates are determined to ensure the Library accumulates sufficient resources to pay annual bond related debt service. The fund balance of the Debt Retirement is reserved since they can only be used to pay debt service obligations.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments were to increase professional fees and capital outlay expenditures to reflect continuing problems with the HVAC system.

Capital Assets

At the end of the fiscal year, the Library had \$6,584,749 invested in net capital assets, including building improvements, furniture and fixtures, equipment, and books and materials. The Library added \$286,286 of capital assets consisting of new books, various audio/visual materials, computer equipment and office equipment, furnishings and building improvements.

Debt

At the end of the year, the Library had \$1,300,000 in general obligation bonds outstanding versus \$1,695,000 at June 30, 2004. This represents a decrease of over 23%.

Economic Factors and Considerations for Next Year

The Library's tax base continues to increase with the growth of the Townships and Village. We, however, need to continue to watch our budget very closely. Expenditures that will be especially important in the coming year include health insurance benefits which have shown significant increases in the last few years and employee compensation, because it is such a significant portion of the Library's operating expenses.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director at 65821 Van Dyke, Washington Township, Michigan 48095.

ROMEO DISTRICT LIBRARY
Romeo, Michigan
STATEMENT OF NET ASSETS
June 30, 2005

ASSETS

Cash and cash equivalents		
Investments		\$ 465,683
Taxes receivable		895,204
Due from other governmental unit		51,251
Capital assets		61,808
		<u>5,173,961</u>
Total Assets		<u>\$6,647,907</u>

LIABILITIES

Accounts payable and accrued liabilities		
Bonds payable - Due within one year		\$ 81,998
- Long-term	\$415,000	
Compensated absences	<u>885,000</u>	1,300,000
		<u>51,025</u>
Total Liabilities		<u>\$1,433,023</u>

NET ASSETS

Invested in capital assets, net of related debt and accrued interest		\$3,860,635
Restricted for debt service		41,613
Unrestricted		<u>1,312,636</u>
Total Net Assets		<u>\$5,214,884</u>

See accompanying notes to financial statements.

ROMEO DISTRICT LIBRARY
 Romeo, Michigan
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2005

FUNCTION/PROGRAM:	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS - GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	
Governmental Activities:				
Library services/operations	<u>\$1,910,534</u>	<u>\$ 37,799</u>	<u>\$ 6,450</u>	<u>(\$1,866,285)</u>
GENERAL REVENUES:				
Property taxes				\$2,177,943
State revenues and penal fines				91,909
Interest on investments				21,117
Gifts and memorials				2,275
Other miscellaneous				<u>17,131</u>
Total General Revenues				<u>\$2,310,375</u>
CHANGE IN NET ASSETS				\$ 444,090
NET ASSETS:				
Beginning of year				<u>4,770,794</u>
End of year				<u>\$5,214,884</u>

See accompanying notes to financial statements.

ROMEO DISTRICT LIBRARY
 Romeo, Michigan
 COMPARATIVE BALANCE SHEETS
 June 30, 2005 and 2004

	GENERAL FUND	DEBT RETIREMENT FUND	TOTAL GOVERNMENTAL FUNDS	
			2005	2004
<u>ASSETS</u>				
Cash and cash equivalents	\$ 424,088	\$ 41,595	\$ 465,683	\$1,184,079
Investments	895,204	-	895,204	98,552
Due from other funds	-	18	18	18
Suburban Library Cooperative Account	47,165	-	47,165	42,474
Taxes receivable	39,774	11,477	51,251	50,732
Due from other governmental units	14,643	-	14,643	-
Total Assets	<u>\$1,420,874</u>	<u>\$ 53,090</u>	<u>\$1,473,964</u>	<u>\$1,375,855</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 30,429	\$ -	\$ 30,429	\$ 21,565
Due to Debt Retirement Fund	18	-	18	18
Deferred revenue	39,774	11,477	51,251	50,732
Accrued compensated absences	38,243	-	38,243	23,700
Total Liabilities	<u>\$ 108,464</u>	<u>\$ 11,477</u>	<u>\$ 119,941</u>	<u>\$ 96,015</u>
<u>FUND BALANCES</u>				
Fund Balances:				
Unreserved:				
Designated for:				
Debt service	\$ -	\$ 41,613	\$ 41,613	\$ 48,820
Undesignated	1,312,410	-	1,312,410	1,231,020
Total Fund Balances	<u>\$1,312,410</u>	<u>\$ 41,613</u>	<u>\$1,354,023</u>	<u>\$1,279,840</u>
Total Liabilities and Fund Balances	<u>\$1,420,874</u>	<u>\$ 53,090</u>	<u>\$1,473,964</u>	<u>\$1,375,855</u>

See accompanying notes to financial statements.

ROMEO DISTRICT LIBRARY
Romeo, Michigan
RECONCILIATION OF FUND BALANCE TO THE STATEMENT OF NET ASSETS
For The Year Ended June 30, 2005

TOTAL FUND BALANCE - MODIFIED ACCRUAL BASIS

\$1,354,023

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds:

The cost of capital assets is
Accumulated depreciation

\$6,584,749
(1,410,788)

5,173,961

Other assets not available to pay current period expenditures
are deferred in the governmental funds

51,251

Long-term liabilities are not due and payable in the current period
and are not reported in the governmental funds:

Bonds payable
Compensated absences

(\$1,300,000)
(51,025)

(1,351,025)

Accrued interest payable on bonds is not included as a liability in
the governmental funds

(13,326)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES

\$5,214,884

See accompanying notes to financial statements.

ROMEO DISTRICT LIBRARY
Romeo, Michigan
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Years Ended June 30, 2005 and 2004

	<u>GENERAL</u> <u>FUND</u>	<u>DEBT RETIREMENT</u> <u>FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>	
			<u>2005</u>	<u>2004</u>
<u>REVENUES:</u>				
Property taxes	\$1,719,664	\$457,760	\$2,177,424	\$2,082,516
State revenue sharing	39,598	-	39,598	39,749
State aid	23,728	-	23,728	23,728
Penal fines	28,583	-	28,583	27,757
Book fines	30,832	-	30,832	31,157
Interest	21,117	-	21,117	13,525
Service fees	6,967	-	6,967	5,713
Centralized purchasing credit	9,772	-	9,772	9,772
Miscellaneous	7,359	-	7,359	4,514
Gifts and memorials	2,275	-	2,275	21,657
Grants	6,450	-	6,450	1,157
Total Revenues	<u>\$1,896,345</u>	<u>\$457,760</u>	<u>\$2,354,105</u>	<u>\$2,261,245</u>
<u>EXPENDITURES:</u>				
Salaries	\$ 850,581	\$ -	\$ 850,581	\$ 787,634
Payroll taxes	65,053	-	65,053	60,282
Health insurance	97,885	-	97,885	82,055
Life insurance	1,008	-	1,008	1,256
Retirement	97,338	-	97,338	93,204
Subscriptions	13,227	-	13,227	13,494
Bindery	356	-	356	231
Supplies	40,561	-	40,561	39,228
Repairs and maintenance	69,875	-	69,875	67,637
Elevator service	2,975	-	2,975	2,146
Custodial service	14,571	-	14,571	16,527
Utilities	77,881	-	77,881	75,576
Administration	7,656	-	7,656	8,342
Mileage	1,770	-	1,770	1,613
Professional services	42,437	-	42,437	158,533
Bookkeeping	2,760	-	2,760	2,640
Cooperative services	11,844	-	11,844	11,864
Reference services	23,132	-	23,132	20,868
Telephone	6,014	-	6,014	8,229
Miscellaneous	2,849	-	2,849	2,634
Public relations and advertising	5,327	-	5,327	5,316

(Continued)

ROMEO DISTRICT LIBRARY
Romeo, Michigan
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE, CONTINUED
GOVERNMENTAL FUNDS
For The Years Ended June 30, 2005 and 2004

	<u>GENERAL FUND</u>	<u>DEBT RETIREMENT FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS 2005</u>	<u>2004</u>
<u>EXPENDITURES:</u> (Continued)				
Special programs				
Insurance	\$ 9,360	\$ -	\$ 9,360	\$ 4,959
Computer services	15,790	-	15,790	16,387
Tax refunds	62,639	-	62,639	66,352
Capital outlay:	296	81	377	1,572
Books				
Audio-visual	131,248	-	131,248	100,431
Equipment	29,211	-	29,211	32,112
Building and furnishings	27,894	-	27,894	24,981
Debt service:	103,417	-	103,417	293,362
Principal				
Interest	-	395,000	395,000	375,000
Miscellaneous	-	69,495	69,495	84,870
	-	391	391	841
Total Expenditures	<u>\$1,814,955</u>	<u>\$464,967</u>	<u>\$2,279,922</u>	<u>\$2,460,176</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 81,390</u>	<u>(\$ 7,207)</u>	<u>\$ 74,183</u>	<u>(\$ 198,931)</u>
FUND BALANCE - JULY 1	\$1,231,020	\$ 48,820	\$1,279,840	\$1,469,071
Prior period adjustment	-	-	-	9,700
FUND BALANCE - JULY 1 (AS RESTATED)	<u>\$1,231,020</u>	<u>\$ 48,820</u>	<u>\$1,279,840</u>	<u>\$1,478,771</u>
FUND BALANCE - JUNE 30	<u>\$1,312,410</u>	<u>\$ 41,613</u>	<u>\$1,354,023</u>	<u>\$1,279,840</u>

See accompanying notes to financial statements.

ROMEO DISTRICT LIBRARY
Romeo, Michigan
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2005

NET CHANGE IN FUND BALANCE - MODIFIED ACCRUAL BASIS

\$ 74,183

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation expense

Depreciation expense
Capital outlay

(\$322,231)
286,286

(35,945)

Revenue reported in the statement of activities that does not provide financial resources and are deferred in the governmental funds

Deferred revenue - Beginning
Deferred revenue - Ending

(\$ 50,732)
51,251

519

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities

395,000

Increases in compensated absences are reported as expenditures when the financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6

7,075

Accrued interest on bonds is an expenditure in the statement of activities; it is not reported in the governmental funds until paid

Accrued interest payable - Beginning
Accrued interest payable - ending

\$ 17,375
(13,326)

4,049

Losses on the disposal of assets are reported in the statement of activities but not in governmental funds

(791)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$444,090

See accompanying notes to financial statements.

ROMEO DISTRICT LIBRARY
Romeo, Michigan
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Romeo District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

A. GOVERNMENTAL REPORTING ENTITY

The Romeo District Library operates under the authority of P.A. 24 of the Michigan P.A. of 1989 as amended. The Library's major support is from property taxes levied in the Village of Romeo, Township of Washington and Township of Bruce. The Library is governed by a six member appointed Board of Trustees. There are no component units as defined by generally accepted accounting principles that are required to be presented in the financial statements.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts - invested in capital assets, net of related debt and accrued interest; restricted for debt service; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

(Continued)

ROMEO DISTRICT LIBRARY
Romeo, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2005

Fund Financial Statements (Continued)

The Library reports the following governmental funds:

General Fund - The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Debt Retirement Fund - The Debt Retirement Fund is used to account for funds used to repay principal and interest on outstanding debt.

C. ASSETS, LIABILITIES AND FUND EQUITY

Cash and Investments

The Library is authorized by state statutes to invest surplus funds in U.S. bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investments. During the year ended June 30, 2005, the Library invested in certificates of deposits, commercial paper, and investment pools.

Receivables and Payables

Property taxes are levied on each December 1st on the taxable value of property as of the preceding December 31. Taxes are considered delinquent if not paid by February 28 of the following year.

The 2005 taxable valuation of the Library totals approximately \$1.4 billion, on which ad valorem taxes levied consisted of 1.2018 mills for Library operations, raising \$1,677,245 for Library operating purposes. An additional .32 mills is levied for debt retirement, raising \$446,598 for debt retirement. This amount is recognized in the financial statements as property tax revenue.

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Due to the significance of the Library's annual acquisition of Library books and materials and the shelf life on most materials extended beyond two years, annual acquisitions of books and materials are treated as capitalized assets in order to spread their cost over their estimated useful life. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 years - 10% salvage value
Furniture and equipment	5-10 years
Improvements	10-20 years
Library books and materials	5-7 years
Computer equipment	3 years

(Continued)

ROMEO DISTRICT LIBRARY
Romeo, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2005

C. ASSETS, LIABILITIES AND FUND EQUITY (Continued)

Compensated Absences

Vacation leave accrues at various rates depending on job classification and length of service. For most employees vacation does not accumulate beyond the calendar year. At June 30, 2005 a liability has been recorded for vested unused vacation pay and the related payroll taxes.

Sick leave accrues at the rate of eight hours per month for full time employees. Part time employees earn accruals on a pro rata basis determined by the time they work. The Library's policy provides for unlimited accumulation; however, at termination of employment, payment will be made for only 30 days of accumulated sick leave. All sick pay is accrued as earned in the government-wide (accrual basis) financial statements. A liability for these amounts is reported in the governmental funds only for employees who have terminated as of year end.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

D. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETS

An annual operating budget on the modified accrual basis of accounting consistent with generally accepted accounting principles is formally adopted for the General Fund. The budget can be amended by approval of the majority of the Board of Trustees. Amendments are presented to the Board at their regular meetings. All annual appropriations lapse at fiscal year end. State law does not require that a budget be adopted for the Debt Retirement Fund.

(Continued)

ROMEO DISTRICT LIBRARY
Romeo, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2005

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended June 30, 2005, the Library incurred expenditures in certain budgeted line items which were in excess of the amounts appropriated as follows:

	<u>BUDGET</u> <u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>	<u>BUDGET</u> <u>VARIANCE</u>
Cooperative service	\$ 11,439	\$ 11,844	\$ 405
Capital outlay - Buildings and furnishings	93,000	103,417	10,417

III. DETAILED NOTES

A. DEPOSITS AND INVESTMENTS

State statutes authorize the Library to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Library is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Library's deposits are in accordance with statutory authority.

The Library's cash and cash equivalents and investments are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Deposits (Checking accounts, savings accounts, certificates of deposit and money market accounts)	\$664,287
Investments in securities, mutual funds and similar vehicles	696,600

At year end, the Library's deposits and investments were reported in the basic financial statements in the following categories:

Cash and cash equivalents	\$ 465,683
Investments	<u>895,204</u>
	<u>\$1,360,887</u>

(Continued)

ROMEO DISTRICT LIBRARY
Romeo, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
For The Year Ended June 30, 2005

A. DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2005, the Library had the following investments:

<u>INVESTMENTS</u>	<u>S & P RATING</u>	<u>MATURITIES</u>	<u>FAIR VALUE</u>
Certificate of Deposit - Republic Bank	N/A	9/26/05	\$100,152
Certificate of Deposit - Select Bank	N/A	10/28/05	98,452
Commercial Paper - Ford Motor Credit	A3	8/23/05	199,800
Commercial Paper - Ford Motor Credit	A1	9/08/05	199,300
Commercial Paper - General Electric Capital Corp.	A1	10/21/05	198,500
Commercial Paper - General Electric Capital Corp.	A1	11/22/05	99,000
			<u>\$895,204</u>

Credit Risk - The Library's investments are limited by state statutes. The Library has no investment policy that would further limit its investment choices.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$288,664 of the Library's bank balance of \$663,563 was exposed to custodial risk as follows:

<u>DEPOSITS</u>	<u>INSURED (FDIC)</u>	<u>UNINSURED AND UNCOLLATERALIZED</u>	<u>CARRYING AMOUNT</u>	<u>BANK BALANCE</u>
Demand Deposits	\$ 44,058	\$ -	\$ 43,086	\$ 44,058
Certificates of Deposit	196,908	-	198,604	196,908
Money market	<u>133,933</u>	<u>288,664</u>	<u>422,597</u>	<u>422,597</u>
	<u>\$374,899</u>	<u>\$288,664</u>	<u>\$664,287</u>	<u>\$663,563</u>

(Continued)

ROMEO DISTRICT LIBRARY
Romeo, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2005

B. CAPITAL ASSETS

Capital asset activity of the Library was as follows:

	<u>BALANCE</u> <u>JULY 1, 2004</u>	<u>ADDITIONS</u>	<u>DISPOSALS AND</u> <u>ADJUSTMENTS</u>	<u>BALANCE</u> <u>JUNE 30, 2005</u>
Assets not being depreciated:				
Land and land improvements	\$ 236,733	\$ -	\$ -	\$ 236,733
Capital assets being depreciated:				
Buildings and improvements	\$4,641,452	\$ 62,211	\$ -	\$4,703,663
Furnishings	452,355	32,369	-	484,724
Office and computer equipment	176,610	31,247	27,926	179,931
Library collection	819,239	160,459	-	979,698
Subtotal	\$6,089,656	\$286,286	\$ 27,926	\$6,348,016
Accumulated depreciation:				
Buildings and improvements	\$ 319,114	\$ 79,434	\$ -	\$ 398,548
Furnishings	279,608	91,264	-	370,872
Office and computer equipment	134,707	20,579	27,135	128,151
Library collection	382,263	130,954	-	513,217
Subtotal	\$1,115,692	\$322,231	\$ 27,135	\$1,410,788
Net capital assets being depreciated	\$4,973,964	(\$ 35,945)	\$ 791	\$4,937,228
Net Capital Assets	\$5,210,697	(\$ 35,945)	\$ 791	\$5,173,961

C. LONG-TERM LIABILITIES

The following is a summary of long-term liabilities for the year ended June 30, 2005:

	<u>BALANCE</u> <u>7/1/04</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE</u> <u>6/30/05</u>	<u>DUE IN</u> <u>ONE YEAR</u>
Bonds payable	\$1,695,000	\$ -	\$395,000	\$1,300,000	\$415,000
Compensated absences	58,100	-	7,075	51,025	-
	<u>\$1,753,100</u>	<u>\$ -</u>	<u>\$402,075</u>	<u>\$1,351,025</u>	<u>\$415,000</u>

(Continued)

ROMEO DISTRICT LIBRARY
Romeo, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2005

C. LONG-TERM LIABILITIES (Continued)

Bonds Payable

Bonds payable consists of the 1998 Library Building and Site Bonds totalling \$1,300,000, due in annual installments ranging from \$415,000 to \$450,000 from April 1, 2006 to April 1, 2008. The interest rate on the bonds is 4.10%. Interest is payable semi-annually on April 1 and October 1.

The annual debt service requirements, including principal and interest, are as follows:

<u>YEAR ENDED</u> <u>JUNE 30</u>	<u>AMOUNT</u>
2006	\$ 415,000
2007	435,000
2008	<u>450,000</u>
	<u>\$1,300,000</u>

IV. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workers' compensation benefits provided to employees. The Library has purchased commercial insurance to cover potential claims.

PENSION PLAN

Plan Description

The Library participates in the Municipal Employees' Retirement System of Michigan "MERS" which is an agent multiple-employer, state-wide public employee pension plan. The defined benefit plan adopted by the Library provides retirement and disability benefits and death benefits to plan members and beneficiaries. Pursuant to Public Act 220 of 1996, MERS is an independent public corporation which is an instrumentality of the participating municipalities. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the statewide plan. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917.

Funding Policy

Covered employees are required to contribute 2% of their salary to MERS. The Library is required to contribute at an actuarially determined rate. The contribution requirement of plan members and the Library are actuarially determined and based upon the benefit program selected by the Library.

(Continued)

ROMEO DISTRICT LIBRARY
Romeo, Michigan
NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2005

PENSION PLAN (Continued)

Annual Pension Cost

For the year ended June 30, 2005, the Library's annual pension cost was equal to the Library's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) an investment yield of 8%, (b) projected salary increases of 4.5% per year compounded annually (c) additional projected salary increases of 0.0% to 8.40% per year depending on age attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% per year after retirement. Unfunded actuarial liabilities are amortized by level percent of payroll contributions over a period of 30 years.

Three year trend information.

<u>FISCAL YEAR</u> <u>FUNDING</u>	<u>ANNUAL PENSION</u> <u>COST (APC)</u>	<u>PERCENT OF APC</u> <u>CONTRIBUTED</u>	<u>NET PENSION</u> <u>OBLIGATION</u>
6/30/03	\$ 98,998	100%	\$ -
6/30/04	93,204	100%	-
6/30/05	97,338	100%	-

V. DEFERRED COMPENSATION PLAN

The Library has adopted a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or financial hardship.

The assets of the plan are held in trust as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries and may not be diverted to any other use. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Library's financial statements.

VI. PRIOR-PERIOD COMPARATIVE FINANCIAL INFORMATION

The governmental fund financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

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 & COMPANY, P.C.
 ID PUBLIC ACCOUNTANTS
 IN TOWNSHIP, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

ROMEO DISTRICT LIBRARY
Romeo, Michigan
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For The Year Ended June 30, 2005

Schedule No. 1
 Page 1 of 2

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
<u>REVENUES:</u>				
Property taxes	\$1,729,302	\$1,730,501	\$1,719,664	(\$ 10,837)
State revenue sharing	38,900	38,900	39,598	698
State aid	22,879	22,879	23,728	849
Penal fines	20,000	28,500	28,583	83
Book fines	30,000	30,000	30,832	832
Interest	8,000	15,000	21,117	6,117
Service fees	4,000	6,500	6,967	467
Centralized purchasing credit	9,000	9,000	9,772	772
Miscellaneous	2,000	6,000	7,359	1,359
Gifts and memorials	600	2,625	2,275	(350)
Grants	-	6,450	6,450	-
Total Revenues	<u>\$1,864,681</u>	<u>\$1,896,355</u>	<u>\$1,896,345</u>	<u>(\$ 10)</u>
<u>EXPENDITURES:</u>				
Salaries	\$ 850,902	\$ 865,902	\$ 850,581	\$ 15,321
Payroll taxes	65,094	66,230	65,053	1,177
Health insurance	106,000	106,000	97,885	8,115
Life insurance	1,500	1,500	1,008	492
Retirement	100,000	100,000	97,338	2,662
Subscriptions	15,000	15,000	13,227	1,773
Bindery	500	500	356	144
Supplies	43,000	44,000	40,561	3,439
Repairs and maintenance	75,000	80,000	69,875	10,125
Elevator service	2,800	3,000	2,975	25
Custodial service	18,000	16,000	14,571	1,429
Utilities	82,000	82,000	77,881	4,119
Administration	7,000	7,800	7,656	144
Mileage	3,000	2,000	1,770	230
Professional fees	30,000	43,000	42,437	563
Bookkeeping	2,760	2,760	2,760	-
Cooperative service	11,439	11,439	11,844	(405)
Reference services	25,000	25,000	23,132	1,868
Telephone	9,000	7,000	6,014	986
Miscellaneous	2,500	3,000	2,849	151
Public relations	9,000	6,000	5,327	673
Special programs	9,000	9,500	9,360	140

(Continued)

ROMEO DISTRICT LIBRARY
Romeo, Michigan
BUDGETARY COMPARISON SCHEDULE, CONTINUED
GENERAL FUND
For The Year Ended June 30, 2005

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<u>EXPENDITURES:</u> (Continued)				
Insurance	\$ 19,000	\$ 17,000	\$ 15,790	\$ 1,210
Computer services	69,000	69,000	62,639	6,361
Tax refunds	2,000	1,000	296	704
Capital outlay:				
Books	140,000	140,000	131,248	8,752
Audio-visual	35,000	35,000	29,211	5,789
Equipment	40,000	40,000	27,894	12,106
Buildings and furnishings	50,000	93,000	103,417	(10,417)
Contingency	41,186	3,724	-	3,724
Total Expenditures	<u>\$1,864,681</u>	<u>\$1,896,355</u>	<u>\$1,814,955</u>	<u>\$ 81,400</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,390</u>	<u>\$ 81,390</u>

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CLINTON TOWNSHIP, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION

ROMEO DISTRICT LIBRARY
Romeo, Michigan
SCHEDULE OF INSURANCE IN FORCE
June 30, 2005

<u>INSURANCE COMPANY</u>		<u>TYPE OF COVERAGE</u>	<u>AMOUNT OF COVERAGE</u>	<u>T E R M</u>	
				<u>FROM</u>	<u>TO</u>
General Insurance Company of America	*	Fire, lightning & E.C. Building 107 Church Street, Romeo, Michigan 65821 Van Dyke, Washington, Michigan	\$ 746,000 3,772,300		
	*	Personal property 107 Church Street, Romeo, Michigan 65821 Van Dyke, Washington, Michigan	289,100 1,060,900		
		Commercial General Liability	\$1,000,000 general aggregate		
		Products - Completed Operations	\$1,000,000 aggregate limit		
		Personal Injury/Advertising	\$1,000,000 any one person		
		Nonowned Auto & Hired Auto	1,000,000		
		Theft, disappearance and destruction	2,000		
		Employee Benefit Liability	\$2,000,000 aggregate benefit		
	**	Inland Marine	50,780	6/25/05	6/25/06
Great American Insurance Companies		Officers and Directors Liability	\$1,000,000 per year \$5,000 retention each claim	10/31/04	10/31/05
SAFECO		Standard Workers Compensation	State Law	7/20/04	7/20/05

* \$10,000 deductible and 90% co-insurance clause on building and contents at both locations.

** Includes Mechanical Breakdown Coverage - \$1,000 deductible

See accompanying notes to financial statements.

ROMEO DISTRICT LIBRARY
Romeo, Michigan
SCHEDULE OF BONDS PAYABLE
June 30, 2005

1998 LIBRARY BUILDING AND SITE BONDS
(Interest Due Semi-Annually, April 1 and October 1)

<u>MATURITY</u> <u>DATE</u> <u>APRIL 1</u>	<u>INTEREST</u> <u>RATE</u>	<u>AMOUNT</u> <u>MATURING</u> <u>ANNUALLY</u>	<u>PRINCIPAL</u> <u>OUTSTANDING</u> <u>JUNE 30</u>
2006	4.10%	415,000	\$ 415,000
2007	4.10%	435,000	435,000
2008	4.10%	450,000	<u>450,000</u>
Total			<u>\$1,300,000</u>

See accompanying notes to financial statements.

ROMEO DISTRICT LIBRARY
Romeo, Michigan
SCHEDULE OF BOND INDEBTEDNESS
(PRINCIPAL AND INTEREST)
June 30, 2005

1998 LIBRARY BUILDING AND SITE BONDS

<u>YEAR ENDED</u> <u>JUNE 30</u>	<u>INTEREST</u> <u>DUE</u> <u>OCTOBER 1</u>	<u>INTEREST</u> <u>DUE</u> <u>APRIL 1</u>	<u>PRINCIPAL</u> <u>DUE</u> <u>APRIL 1</u>	<u>TOTAL</u> <u>PRINCIPAL</u> <u>AND</u> <u>INTEREST</u>
2006	\$ 26,650	\$ 26,650	\$ 415,000	\$ 468,300
2007	18,142	18,143	435,000	471,285
2008	<u>9,225</u>	<u>9,225</u>	<u>450,000</u>	<u>468,450</u>
Totals	<u>\$ 54,017</u>	<u>\$ 54,018</u>	<u>\$1,300,000</u>	<u>\$1,408,035</u>

See accompanying notes to financial statements.

ROMEO DISTRICT LIBRARY
Romeo, Michigan
SCHEDULE OF PENSION FUNDING PROGRESS
June 30, 2005

<u>ACTUARIAL VALUATION DATE DECEMBER 31</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITIES (AAL)</u>	<u>UNFUNDED ACTUARIAL ACCRUED LIABILITY UAAL</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
	(a)	(b)	(b - a)	(a/b)	(c)	((b-a)/c)
1997	\$ 289,088	\$ 720,218	\$431,130	40%	\$370,204	116%
1998	358,082	867,862	509,780	41%	418,729	122%
1999	446,739	960,092	513,353	47%	452,132	114%
2000	546,640	1,093,412	546,772	50%	543,126	101%
2001	677,360	1,203,741	526,381	56%	698,529	75%
2002	820,946	1,373,488	552,542	60%	716,490	77%
2003	990,849	1,556,669	565,820	64%	631,155	90%
2004	1,140,253	1,649,340	509,087	69%	626,521	81%

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.

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John E. Gideon, C.P.A.
Thomas J. Thomas, C.P.A.

MEMBERS
The American Institute of
Certified Public Accountants
The Michigan Association of
Certified Public Accountants

September 16, 2005

To the Board of Trustees
Romeo District Library
Romeo, Michigan

Re: Comments and recommendations in conjunction with
annual audit for the year ended June 30, 2005

Board Members:

We have audited the financial statements of the Romeo District Library for the year ended June 30, 2005 and have issued our report thereon dated September 16, 2005. Included within the purview of the audit is the requirement under Public Act 2, P.A. of 1968, as amended, that we review current internal controls and procedures and report on the results of comments and recommendations of the prior year.

Budgets

The Library has established an effective budgeting process which is used to control expenditures. We have reviewed the budgets for compliance with the Uniform Budgeting and Accounting Act P.A. 621 of 1978. The act requires that expenditures in a specific appropriations account beyond the amount of the original budget (general appropriations act), be approved by the Board with a transfer or supplemental appropriation. During the year ended June 30, 2005, the expenditures for cooperative service and capital outlay - buildings and furnishings exceeded the budget amounts approved by the Board. Total expenditures for the year were \$81,400 less than the final budgeted expenditures.

Cash Receipts

Based on recommendations we made in the prior year, the Library has re-evaluated and made improvements to the cash receipts procedures. The Library has implemented procedures that improve the segregation of duties and provide additional checks and balances that improve the internal controls.

Cash Disbursements

During our testing of cash disbursements we noted that management approval was not indicated on a number of invoices and certain items were approved for payment without adequate supporting documentation. We have discussed our findings with management and have recommended procedures to improve the supporting documentation for cash disbursements.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the administration of the Romeo District Library. This restriction is not intended to limit distribution of this report which, upon acceptance by the Board of Trustees, is a matter of public record.

We would like to thank the Library staff for the courtesy and cooperation that we received during the audit.

Respectfully submitted,

BUSS & COMPANY, P.C.

A handwritten signature in cursive script that reads "Buess & Company, P.C.".

Certified Public Accountants

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